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	DODE-00	ITCE-00	DOTE-00	SRPP-00	EAP-00	EB-00	EXME-00
	E-00	FAAE-00	UTED-00	VC-00	FRB-00	H-01	TEDE-00
	INR-00	ITC-01	L-00	VCE-00	AC-01	NSAE-00	OES-01
	OMB-01	OPIC-01	PC-05	PM-00	PRS-00	ACE-00	SP-00
	SSO-00	SS-00	STR-00	TEST-00	TRSE-00	USIE-00	EPAE-00
	PMB-00	DRL-02	G-00	NFAT-00	SAS-00	/014W	

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P 142237Z MAY 01
FM AMEMBASSY BOGOTA
TO SECSTATE WASHDC PRIORITY 1439
INFO USDOC WASHDC
DEPT OF ENERGY WASHDC
AMEMBASSY LIMA
AMEMBASSY CARACAS
AMEMBASSY QUITO
AMEMBASSY LA PAZ
AMEMBASSY PANAMA
CIA WASHDC
DIA WASHDC
NSC WASHDC
USCINCSO MIAMI FL
AMEMBASSY HANOI

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STATE FOR WHA/AND, WHA/ESPC
STATE PASS OPIC FOR DMORENESE
STATE PASS EXIMBANK FOR AMERICAS DIVISION
COMMERCE FOR 4331/IEP/OLA/AND/JANGLIN AND FOR
3134/USFCS/IOI/WH/DLUTTER
ENERGY FOR GARY WARD AND ERIKA BENSEN
HANOI FOR BERG

E.O. 12958: N/A
TAGS: EPET, ENRG, ECON, CO
SUBJECT: OIL IN COLOMBIA: POTENTIAL DESPITE THE

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PROBLEMS

REF: BOGOTA 3901

SENSITIVE BUT UNCLASSIFIED. PLEASE PROTECT
ACCORDINGLY.

SUMMARY

1. (SBU) WHILE FOREIGN PETROLEUM INVESTORS FACE MAJOR SECURITY CONCERNS, AS EMBASSY HAS OFTEN REPORTED (MOST RECENTLY IN REFTEL), THIS SECTOR REMAINS KEY TO COLOMBIA'S FUTURE ECONOMIC DEVELOPMENT, AND HAS THE POTENTIAL TO MAKE A VALUABLE CONTRIBUTION TO THE WORLD ENERGY SUPPLY. COLOMBIA HAS OVER 2.6 BILLION BARRELS OF PROVEN RESERVES OF LIGHT SWEET CRUDE. NEW ROYALTY AND PRODUCTION SHARING REGULATIONS HAVE IMPROVED THE POTENTIAL RATE OF RETURN FOR INVESTORS. THE CURRENT

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ROYALTY LAW, HOWEVER, MAY BE INVALIDATED BY THE COURTS ON PURELY PROCEDURAL GROUNDS, BUT THE GOC IS PRESSING CONGRESS TO SWIFTLY ENACT REPLACEMENT LEGISLATION. THE MORE ATTRACTIVE REGULATORY ENVIRONMENT BROUGHT IN 32 COMPANIES TO SIGN EXPLORATION CONTRACTS IN 2000. RELATED SECTORS, SUCH AS REFINERIES, ALSO OFFER A POTENTIAL FOR INVESTMENT. BUT INVESTORS MUST BE AWARE THAT OIL CORPORATIONS IN COLOMBIA FACE SERIOUS GEOLOGICAL CHALLENGES AS WELL AS A DIFFICULT SECURITY SITUATION. END SUMMARY.

THE FACTS

2. (U) DESPITE SERIOUS SECURITY CHALLENGES FOR THE PETROLEUM SECTOR (REFTEL) OIL COMPANIES KEPT COMING TO COLOMBIA TO EXPLORE IN 2000. OIL IS COLOMBIA'S LARGEST CONTRIBUTOR TO EXPORTS, ACCOUNTING FOR 33 PERCENT OF THE TOTAL IN 2000, 17 PERCENT OF THE NATIONAL BUDGET REVENUE AND 4.5 PERCENT OF GDP. COLOMBIA IS THE SEVENTH-LARGEST SOURCE OF US CRUDE OIL IMPORTS. AVERAGE PRODUCTION FOR THE FIRST THREE-QUARTERS OF 2000 WAS 710 KB/D WITH 416 KB/D EXPORTED AND 294 KB/D FOR LOCAL CONSUMPTION. CURRENT RESERVES PRODUCE A SWEET (LOW SULFUR) CRUDE WHICH GARNERS HIGH WORLD PRICES. PROVEN RESERVES ARE 2.6 BILLION BARRELS WITH 10 TIMES THAT IN POTENTIAL RESERVES. THE MOUNTAINOUS TOPOGRAPHY

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IN COLOMBIA MAKES THESE POTENTIAL RESERVES AN
EXPLORATION CHALLENGE. THE CUTS IN THE SEDIMENTARY
LAYERS, FORMED BY THE UPRISING OF THE ANDES MOUNTAIN
RANGE, HAVE DIVIDED COLOMBIA'S POOL OF OIL INTO MANY
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POCKETS. UNLIKE OIL FINDS IN OTHER COUNTRIES SUCH AS
VENEZUELA THE FINDS IN COLOMBIA ARE CONSIDERED TO BE
MEDIUM TO SMALL IN SIZE, WITH MAXIMUM PRODUCTION OF
250-300KB/D. OIL IN THE EASTERN FOOTHILLS OF THE
EASTERN MOUNTAIN RANGE AND THE PLAIN BELOW CAN BE FOUND
AS HIGH AS 8,000 FEET, BUT IN MORE MOUNTAINOUS TERRAIN
EXPLORATORY WELLS MUST BE DRILLED AS DEEP AS 16,000
FEET TO GET THROUGH ENOUGH LAYERS OF SEDIMENTARY ROCK
TO FIND OIL. COUNTERING THE DIFFICULT EXPLORATION AND
DRILLING CONDITIONS IS THE 20 PERCENT HIT RATE ON
DRILLING SITES, TWICE THE WORLD AVERAGE.

3. (U) THERE ARE TWO MAJOR PRODUCING FIELDS IN
COLOMBIA, BP/AMOCO'S CUSIANA/CUPIAGUA AND OCCIDENTAL
PETROLEUM'S (OXY) CANO LIMON. BOTH ARE LOCATED ON THE
EASTERN SIDE OF THE EASTERN ANDES MOUNTAIN RANGE.
CUSIANA/CUPIAGUA JUST REACHED PEAK PRODUCTION AND COULD
END PUMPING BY 2012. CANO LIMON HAS BEEN ON A DOWNWARD
SLOPE SINCE IT PEAKED AT 300KB/D IN THE MID-1990S. IT
CURRENTLY PUMPS ABOUT 110KB/D. A THIRD FIELD,
CUBARRAL, LOCATED IN META DEPARTMENT ALSO ON THE
EASTERN SIDE OF THE ANDES, WAS JUST RE-ACQUIRED BY
PARASTATAL ECOPETROL AFTER CHEVRON'S PRODUCTION
CONTRACT EXPIRED. THIS FIELD IS AT A LOW EBB IN

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TO SECSTATE WASHDC PRIORITY 1440
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DEPT OF ENERGY WASHDC
AMEMBASSY LIMA
AMEMBASSY CARACAS
AMEMBASSY QUITO
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STATE FOR WHA/AND, WHA/ESPC
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E.O. 12958: N/A
TAGS: EPET, ENRG, ECON, CO
SUBJECT: OIL IN COLOMBIA: POTENTIAL DESPITE THE
PROBLEMS

PRODUCTION, BUT ECOPETROL IS STUDYING WAYS TO INCREASE
THE EXTRACTION OF ITS UNTAPPED RESERVES.

EXPLORATION AND ROYALTIES

4. (U) UNLESS NEW DISCOVERIES ARE MADE COLOMBIA COULD
BE A NET OIL IMPORTER BY 2004-2005. IN ORDER TO
ENCOURAGE MORE PRIVATE INVESTMENT IN EXPLORATION AND
PRODUCTION THE GOC CHANGED THE RULES ON ROYALTIES AND
SHARE IN PRODUCTION PROFITS IN 1999. WHILE EXPLORATION
CONTRACTS PUT THE FULL RISK BURDEN ON THE COMPANIES,
ECOPETROL WILL REIMBURSE HALF OF THE COSTS WHEN OIL IS
FOUND AND THE FIELD IS DECLARED COMMERCIALY VIABLE.
ONCE THE FIELD IS DECLARED VIABLE, ECOPETROL ALSO

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BECOMES A PRODUCTION PARTNER SHARING IN THE COSTS AND PROFITS. UNDER THE NEW PETROLEUM REGULATIONS
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ECOPETROL'S PARTNERSHIP SHARE DROPPED FROM 50 TO 30 PERCENT. ROYALTIES, TRADITIONALLY A STANDARD 20 PERCENT OFF THE TOP OF ANYTHING PRODUCED IN A COMMERCIAL FIELD, WERE CHANGED TO FAVOR EXPLOITATION OF THE SMALL AND MEDIUM SIZED FIELDS MOST COMMONLY FOUND IN COLOMBIA. FOR EXAMPLE, FIELDS PRODUCING BETWEEN 5KB/D AND 125KB/D BARRELS/DAY PAY 5-20 PERCENT ROYALTIES; FIELDS PRODUCING BETWEEN 125KB/D AND 400KB/D PAY 20 PERCENT; FIELDS PRODUCING 440KB/D AND 600KB/D PAY 20-25 PERCENT; AND FIELDS PRODUCING OVER 600KB/D PAY 25 PERCENT.

5. (U) THIS NEW SLIDING ROYALTIES SCALE HAS ENCOURAGED NEW EXPLORATION. OXY AND BP/AMOCO ARE CONDUCTING THE TWO LARGEST EXPLORATION EFFORTS IN FIELDS CLOSE TO THEIR EXISTING ONES. OXY'S GIBRALTAR EXPLORATION SITE HAS FACED HIGH PROFILE LEGAL CHALLENGES, THUS FAR UNSUCCESSFUL, BY THE U'WA INDIANS WHO CLAIM THE AREA IS PART OF THEIR TERRITORIAL HOMELAND. BP/AMOCO'S NISCOTA EXPLORATION SITE, BY CONTRAST, HAS BEEN CONFLICT-FREE THUS FAR. IF THEY ARE SUCCESSFUL, COLOMBIA COULD INCREASE ITS PRODUCTION POTENTIAL BY UP TO 2 BILLION BARRELS IN RESERVES.

CONSTITUTIONAL CHALLENGE

6. (SBU) THERE HAVE BEEN FOUR LEGAL CHALLENGES TO THE NEW PETROLEUM REGULATIONS, ONE OF WHICH IS CURRENTLY BEING REVIEWED BY THE CONSTITUTIONAL COURT. THIS NEW REGULATION LAW MAY BE DECLARED UNCONSTITUTIONAL DUE TO
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PROCEDURAL ERRORS MADE WHILE THE BILL WAS BEING PUSHED THROUGH CONGRESS. THE PRESIDENT OF ECOPETROL, THE MINISTER OF ENERGY AND MINES, AND MOST CONGRESSMEN ARE IN FAVOR OF THE LAW AND A NEW BILL, WITH EXACTLY THE SAME WORDING, IS WORKING ITS WAY THROUGH CONGRESS AGAIN. IN CASE THE REGULATION LAW IS THROWN OUT, THE MINISTER HAS ALREADY FILED A PETITION TO HAVE THE CURRENT LAW REMAIN IN EFFECT UNTIL A NEW ONE IS PASSED. THIS DEFERRED IMPLEMENTATION OF A COURT DECISION IS ALLOWED UNDER COLOMBIAN LAW.

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RESULTS?

7. (SBU) THE NEW ROYALTIES LAW PAID OFF WITH 32
EXPLORATION CONTRACTS SIGNED IN 2000, DOUBLE THE RATE
IN RECENT YEARS. NONE OF THE CONTRACTORS HAVE BEGUN
ANY WORK YET, BECAUSE MANY ARE SMALL COMPANIES THAT
STILL NEEDED FINANCIAL BACKING TO GET THE PROJECTS OFF
THE GROUND. THESE COMPANIES ARE BLAMING INCREASED
SECURITY CONCERNS FOR INVESTOR RETICENCE. TO AVOID
THESE ISSUES IN THE FUTURE, ECOPETROL PRESIDENT ALBERTO
CALDERON TOLD US THAT ECOPETROL HAS CHANGED ITS
EXPLORATION BIDDING PROCESS TO REQUIRE PRIOR

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CAPITALIZATION BEFORE A COMPANY CAN SUCCESSFULLY BID ON
A CONTRACT. IT SHOULD ALSO BE NOTED THAT IN 1999 11
COMPANIES PULLED OUT OF THEIR EXPLORATION CONTRACTS,
INCLUDING TEXACO, CHEVRON AND TRITON, BECAUSE OF A
COMBINATION OF DRY WELLS AND DIFFICULT WORKING
CONDITIONS. CHEVRON, IN PARTICULAR, MADE A BUSINESS
DECISION TO END ITS 50-YEAR INVESTMENT IN COLOMBIA
AFTER ECOPETROL DID NOT RENEW ITS ASSOCIATION CONTRACT
FOR THE CUBARRAL FIELD. THE LENGTHY SHUTDOWN OF
OCCIDENTAL PETROLEUM'S CANO LIMON PIPELINE BECAUSE OF
GUERRILLA ATTACKS, AND THE LACK OF A QUICK GOC
SOLUTION, MAY ALSO GIVE FUTURE INVESTORS PAUSE.

WORKING CONDITIONS

8. (SBU) COLOMBIA'S OIL SECTOR HAS SEVERAL DISTINCT
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ADVANTAGES ASIDE FROM THE NEW REGULATORY ENVIRONMENT: A
WELL EDUCATED WORK FORCE WITH EXTENSIVE EXPERIENCE IN
EXPLORATION/PRODUCTION, A SWEET CRUDE WHICH COMMANDS
HIGH WORLD PRICES, AND EASY MARKET ACCESS TO BOTH
EUROPE AND ASIA THROUGH PORTS ON BOTH COASTS. BUT
THESE ADVANTAGES COME WITH UNIQUE COSTS: A DIFFICULT
SECURITY ENVIRONMENT WITH MULTIPLE PLAYERS VYING FOR
ATTENTION AND MONEY, DIFFICULT GEOLOGICAL STRUCTURES,
AND A POWERFUL OIL LABOR UNION WHOSE LEADERSHIP IS NOT
ALWAYS IN FAVOR OF FOREIGN INVESTORS AS IT SEES GREATER
PROTECTION FOR JOBS IF ECOPETROL DOES ALL THE
EXPLORATION AND PRODUCTION ITSELF.

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REFINERIES: AN ALTERNATIVE

9. (U) COLOMBIA ALSO HAS INVESTMENT POTENTIAL IN THE EXPANSION OF REFINERY FACILITIES. ECOPETROL OWNS ONLY TWO OPERATING FACILITIES WHICH DO NOT FULLY MEET LOCAL DEMAND, THUS REQUIRING COLOMBIA TO IMPORT GASOLINE. ALTHOUGH ECOPETROL WILL EXPAND ITS CURRENT FACILITIES, THE GOC HAS ANNOUNCED IT WILL NOT BUILD ANY NEW FACILITIES, PREFERRING TO TURN THE TASK OVER TO PRIVATE COMPANIES. THE US BASED SHAW GROUP IS ALREADY INVOLVED IN THE CONSTRUCTION OF THE NEW SEBASTOPOL REFINERY ON THE ATLANTIC COAST.

10. (SBU) THE MAJOR CHALLENGE FOR REFINERY BUILDING IN COLOMBIA IS THE STRICT REGULATORY CONTROL EXERCISED BY THE ENERGY AND GAS REGULATORY COMMISSION (CREG) OVER THE PUMP PRICE OF GASOLINE, MAKING THE SALE OF REFINED
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PRODUCTS WITHIN COLOMBIA UNATTRACTIVE AT THE MOMENT. ACCORDING TO HIS SENIOR ADVISOR, THE MINISTER OF ENERGY AND MINES IS CONSIDERING WORKING WITH THE CREG TO INCREASE THE COMMERCIAL VIABILITY OF THIS SECTOR, BUT EXACTLY HOW AND BY HOW MUCH IS STILL UNCLEAR.

COMMENT: INVEST WITH EYES WIDE OPEN

11. (SBU) OIL CONTINUES TO BE ONE OF THE BEST INVESTMENT PROSPECTS FOR FOREIGNERS IN COLOMBIA. IT IS NOT A SECTOR, WHOEVER, TO WHICH ONE CAN COME UNINFORMED AND UNPREPARED. ALTHOUGH THE REGULATORY CLIMATE HAS BECOME STRONGER THE SECURITY SITUATION AND THE UNIQUE GEOLOGICAL CONDITIONS OF THE COUNTRY PRESENT UNIQUE CHALLENGES. OVER THE LAST TWO DECADES, COLOMBIA'S ECONOMY HAS BECOME EVER MORE PETROLEUM DEPENDENT AND WE EXPECT THAT ANY FUTURE ADMINISTRATION IS LIKELY TO CONTINUE THE PASTRANA GOVERNMENT'S INVESTOR-FRIENDLY REGIME. A DEFINITE SOLUTION TO THE SECURITY PROBLEMS, HOWEVER, IS HARDER TO ENVISION.

MOORE

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